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International American Supermarkets Corp.

U.S. Processed Food Trade Continues To Expand

Total U.S. trade in processed foods and beverages continued to expand in calendar year 1996 to a record \$58 billion. Exports reached \$30.1 billion, about 3 percent higher than in 1995, while imports rose 11 percent to \$27.8 billion. As a result, the 1996 trade surplus, while well below 1995's record \$4.4 billion, was still the third largest on record.

Export Growth Has Slowed

Relatively slow export growth for processed foods—3 percent compared with a 9-percent annual average for the previous 3 years—coincided with a slowdown in global meat consumption, relatively high U.S. prices for agricultural commodities, and a higher dollar value against many of the world's major currencies.

The value of U.S. processed food exports grew only \$726 million during 1996, well below the \$2.1-billion annual average increase for the previous 5 years. Of the 10 major processed food groups, meat product exports (including poultry) remain the largest, accounting for nearly

30 percent of total U.S. export value of processed foods. Grain products and fats and oils are the next-largest industry groups, together accounting for over a quarter of the export total. Sugar and confections and miscellaneous commodities (including coffee, pasta, and food preparations) had the largest percentage increases in 1996, while exports declined for dairy products, fats and oils, beverages, and fish.

Of the 49 separate industries that make up the 10 processed food groups, poultry slaughter and processing has been among the fastest growing in recent years. Poultry exports have averaged 31-percent annual growth for the past 3 years, and in 1996 jumped 23 percent to a record \$2.6 billion. More than 60 percent of the 1996 increase was due to soaring exports to Russia. Russian purchases of U.S. poultry rose from \$84 million in 1993 to \$914 million in 1996 (AO January-February 1997).

Other growth industries in 1996 were salted and roasted nuts, rising 25 percent to \$1.2 billion, and miscellaneous food preparations (e.g., tea, spices, yeasts), which rose 23 percent, also reaching \$1.2 billion. Some smaller export industries increased exports considerably in 1996. Wine and brandy exports rose 34 percent to \$330 million, and prepared flour mixes and dough by 28 percent to \$139 million.

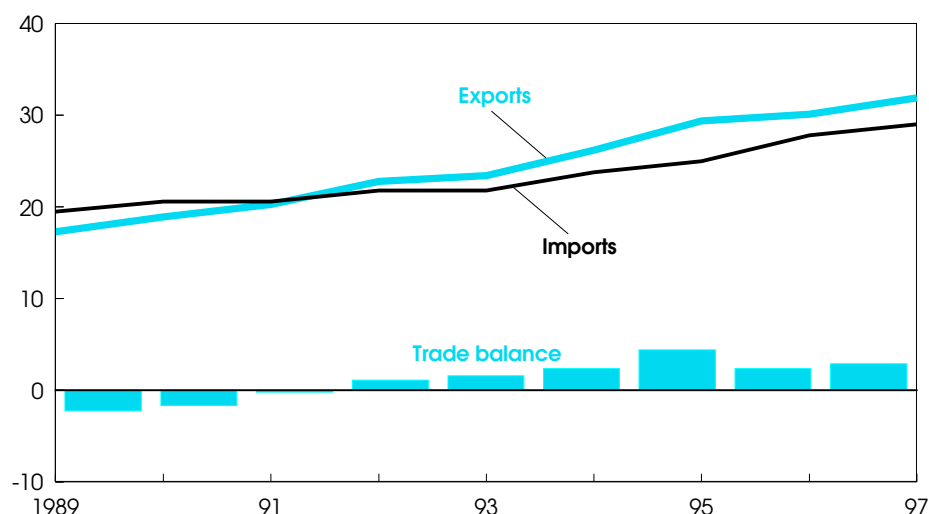
The slowdown in overall export growth can be attributed largely to reduced exports of meat, and fish and seafood. Meat packing (primarily beef, pork, and by-products, including hides) is by far the largest U.S. processed food export industry. Meat packing exports jumped 21 percent to \$6.1 billion in 1995, but fell \$100 million last year. The 1996 decline can be traced to a stronger dollar, lower U.S. meat prices that offset volume gains, and a number of food safety fears that reduced global demand for beef, especially the outbreak of BSE (bovine spongiform encephalopathy) in Europe and *E. coli* problems in the Japanese food system. Meat packing product exports to Japan, the largest U.S. market, fell 3 percent to \$2.9 billion.

Sales to South Korea fell 17 percent to \$860 million, due primarily to economic sluggishness in South Korea and the strength of the dollar against the South Korean won. Mexico was a bright spot for U.S. meat packing product exports, as exports jumped more than 50 percent to \$470 million in 1996, after plunging 50 percent in 1995 after peso devaluation.

The drop in U.S. exports of fresh/frozen fish and seafood—\$230 million, dropping to \$2.5 billion—was even more sizeable than for meat packing products. A decrease in the value of Japanese imports

Processed Food Trade Continues to Expand

\$ billion



1997 projected.

Economic Research Service, USDA

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Food Industry Classification System to Change

Starting in January 1998, the U.S. will collect data on industry establishments according to a new system of industry definitions. USDA's Economic Research Service (ERS) currently uses the U.S. Standard Industrial Classification (SIC) system to analyze U.S. exports and imports of processed foods. The SIC assigns each U.S. establishment or plant to an industry category based on its principal activity.

Processed foods, beverages, and related products are currently assigned to SIC-20. The industries within SIC-20 can be further disaggregated into three- and four-digit SIC codes. At the three-digit level are 9 major processed food groups, but ERS has removed fish from the miscellaneous group, creating 10 major groups for its analysis. Comprising the 10 groups of the SIC-20 are 49 individual food processing industries. For example, SIC-2011 identifies the meat packing industry. The first two digits place the industry within SIC-20, while the third digit indicates the industry group—meat products—and the fourth specifies the industry—meat packing.

In January 1997, the U.S. adopted a new industry classification system—the North American Industry Classification System (NAICS)—to replace the SIC, with implementation planned for 1998. NAICS is a production-oriented system developed in cooperation with Statistics Canada and

Mexico's Instituto Nacional de Estadística Geografía e Informática. It provides common industry definitions for Canada, Mexico, and the U.S., facilitating economic analysis.

The structure of NAICS is similar to the SIC, but changes in the definition of industry groups and of industries precludes complete correspondence between SIC and NAICS. Industries previously classified as SIC-20 processed foods will be separated into two major groups. The majority of food processing industries will be assigned to Food Manufacturing (NAICS-311). However, SIC-20 beverages other than dairy or fruit beverages will be assigned to Beverage and Tobacco Manufacturing (NAICS-312).

NAICS contains 47 food manufacturing industries and 6 beverage manufacturing industries. While this is an increase from the 49 industries in SIC-20, only 33 of the 49 SIC-20 industries correspond to NAICS industries. The remaining SIC-20 industries have been reclassified or combined into U.S. national industries that do not correspond closely to an individual SIC-20 industry. The U.S. plans to publish data on national industries which are equivalent to four-digit SIC industries in most cases, and this should allow for continued evaluation of trade in processed food and beverages equivalent to the level of detail currently available.

of U.S. fish accounted for most of the decline, as both the price and quantity of salmon exports contracted. Fish and seafood exports dropped below poultry exports in 1996 for the first time. Exports of animal and marine fats and oils fell to \$889 million in 1996 after surpassing \$1 billion the previous year. Industries with the largest percentage declines were manufactured ice, creamery butter, bottled and canned soft drinks, and cottonseed oil, but these four industries are relatively small, accounting for just over 1 percent of U.S. processed food exports.

On the import side, the 11-percent growth in U.S. processed food purchases in 1996 was the strongest in recent years. A 2-percent increase in U.S. real per capita disposable income, following 1995's 2.6-percent rise, boosted consumer spending. In addition, the value of the dollar, weighted by countries' share of U.S. exports, rose approximately 7 percent during 1996, effectively reducing prices of foreign goods for U.S. consumers. Most of the 10 processed food groups registered double-digit import growth, led by sugar

and confections at 30 percent, grain mill products at 23 percent, and fats and oils at 21 percent. Only meat products and fish lost ground, and each only slightly.

At the industry level, double-digit increases were common, with 33 of the 49 industries increasing imports by 10 percent or more. Many of these industries, however, rose from a fairly small 1995 level. Among the larger industries, cane sugar imports surged 58 percent to nearly \$1.2 billion, becoming a "billion-dollar" import industry for the first time as U.S. sugar production fell significantly from 1995. Imports of a number of consumer items such as beer, canned fruit and vegetables, chocolate and cocoa, and wine and brandy, also saw strong gains in 1996.

Major Markets & Sources For U.S. Processed Foods

U.S. exports of processed foods are highly concentrated in a few major markets. The top 10 single-country markets accounted for 70 percent of total 1996 U.S. processed food exports, and Japan, Canada,

and Mexico are leading markets in every major food group.

At \$7.2 billion, Japan is by far the largest export market for U.S. processed foods, accounting for 24 percent of the total in 1996. More than 60 percent (\$4.5 billion) of exports to Japan was meat and fish. NAFTA partners Canada and Mexico were second and third at \$4.5 billion and \$2 billion, a combined 22 percent of total U.S. processed food trade. Others in the top 10 included three Asia Pacific Rim nations (South Korea, Hong Kong, and Taiwan), three western European nations (Netherlands, United Kingdom, and Germany), and Russia. Russia recorded the largest export growth rate of any major market, as exports reached \$1.3 billion, a 32-percent increase over 1995.

The mix of single-country import sources is more varied than export destinations. Canada dominates as a source for U.S. processed foods imports. Its \$5.7 billion in 1996 exports to the U.S. captured more than one-fifth of the market. Canada exported more than three times as much to

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the U.S. as Mexico, the second leading source country at \$1.8 billion. The U.S. imported \$2 billion worth of meat and fish and seafood from Canada in 1996, nearly a third of food imports from Canada. Other leading imports from Canada were vegetable oils, distilled spirits, and chocolate products. Fish, malt beverages, and frozen fruits and vegetables were the principal imports from Mexico.

The U.S. also imported more than \$1 billion in processed food commodities from Thailand, France, and Italy. The United Kingdom, Netherlands, Brazil, New Zealand, and Australia rounded out the top 10. The leading imports were fish and seafood from Thailand, wine from France and Italy, distilled spirits from the United Kingdom, and beer from the Netherlands. The main import from Australia and New Zealand was meat packing products. These 10 countries supplied 57 percent of U.S. imports of processed foods.

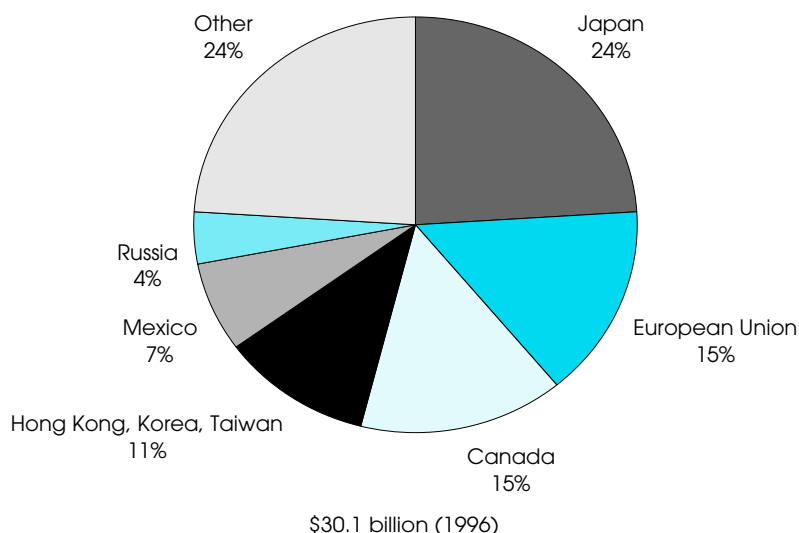
Among the top 10 countries, Brazil and Italy were the fastest growing import sources, with increases of 23 and 22 percent over 1995. Orange juice and cane sugar imports from Brazil, and wine and olive oil from Italy, contributed to the rise. Only two countries in the top 10, Thailand and Australia, decreased their shipments to the U.S. in 1996.

What's Ahead for 1997?

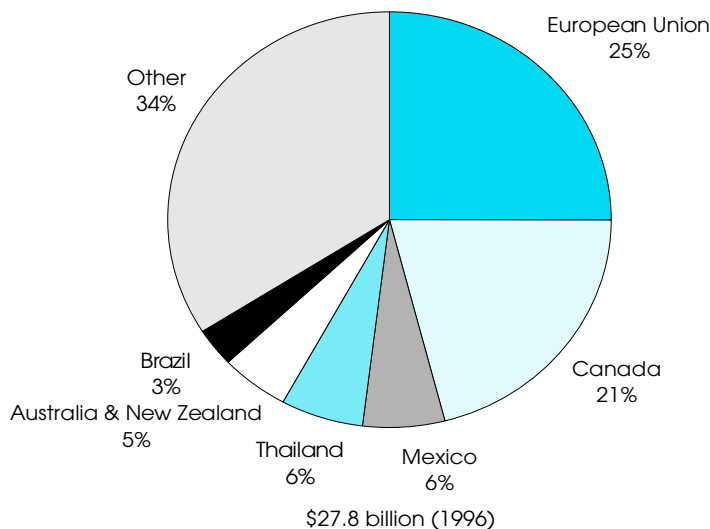
The combination of slow U.S. export growth and higher-than-average import growth in 1996 was probably an exception rather than the start of a trend. Exports from meat packing plants had grown 13 percent in 1994 and 20 percent in 1995 before falling sharply in the latter part of 1996. Food safety concerns about beef in Japan appear to be abating, and with lower Japanese beef tariffs, exports are expected to pick up moderately in 1997.

In addition, U.S. pork exports could surpass their strong 1996 performance, as they are expected to fill some of the void created by Taiwan's suspension of pork exports in March 1997 following an outbreak of foot-and-mouth disease (AO June 1997). Similarly, declines in exports of soybean oil and meal, animal and marine fats and oils, and vegetable oils in 1996, following exceptionally large export

The EU and Canada Are Key U.S. Markets for Processed Food Exports . . .



. . . and Both Are Also Major Import Sources



Economic Research Service, USDA

gains in 1994 and 1995, likely reflect temporary supply-and-demand conditions, especially high commodity prices in 1996.

Increases in U.S. imports in 1996 were the result of a healthy U.S. economy combined with continued strong demand for a variety of food items. Sustained growth in the U.S. economy during the early months of 1997 suggests that import demand for processed foods will remain

strong. Global demand for U.S. products is expected to increase as well, raising total processed food trade above \$60 billion in 1997 and increasing the trade surplus to \$3 billion or more.

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